

Lianhe Global has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Nanxun Communications Investment Group Co., Ltd.

HONG KONG, 9 November 2022 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating to Nanxun Communications Investment Group Co., Ltd. (“NCIG” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the People’s Government of Nanxun District (“Nanxun government”) would provide strong support to NCIG if needed, in light of its 100% ownership of NCIG, NCIG’s strategic importance as the sole state-owned entity for transportation related infrastructure investment, construction and operation and the important entity for water conservancy infrastructure construction in Nanxun District (“Nanxun”), and the linkage between the Nanxun government and NCIG, including control and supervision over the management, strategic alignment and ongoing operational and financial support. In addition, the Nanxun government may face significant negative impact on its reputation, business and financing activities if NCIG encounters any operational and financial difficulties.

The Stable Outlook reflects our expectation that NCIG’s strategic importance would remain intact while the Nanxun government will continue to ensure NCIG’s stable operation.

Key Rating Rationales

Nanxun Government’s Ownership and Supervision: The Nanxun government, through the Finance Bureau of Nanxun District, Huzhou City (“Nanxun Finance Bureau”), holds 100% equity of NCIG. It is the ultimate controller of the company. The Nanxun government supervises the company, including control and supervision over the management, decisions on strategic development and investment and financing plans etc. In addition, the Nanxun government has assessment mechanism over the company and it will appoint auditor to supervise the operating performance and financials on a periodic basis.

Strategic Importance to Nanxun and Strategic Alignment: NCIG is the important state-owned infrastructure investment and construction entity in Nanxun. The company is mainly responsible for the investment, construction and subsequent operation of transportation and water conservancy related infrastructure projects. The highways, railroads, rail transit and related integrated transportation hubs constructed by NCIG played an important role in promoting economic development in Nanxun and surrounding areas. NCIG’s business operation and development have been aligned with the government’s development plans. In the future plan of the Nanxun government, NCIG will continue to be responsible for the transportation development of Nanxun to support the local economy.

Ongoing Government Support: NCIG received support from the Nanxun government, including equity injection, asset injection, operation subsidy and policy support. Meanwhile, as

the sole state-owned entity for transportation related infrastructure construction in Nanxun, NCIG has certain advantages in project and resource acquisition. At end-September 2022, the company's paid-in capital increased from the initial of RMB203 million to RMB803 million. The Nanxun government also continued to inject various assets and equity to the company. In addition, NCIG also enjoys a variety of policy support, such as tax deduction and financial subsidies. NCIG had received a total subsidy amount of c. RMB1.2 billion from 2019 to the first nine months of 2022. We believe NCIG is likely going to receive government support in the form of operational and/or financial subsidies, to support its daily business operation and transportation and water conservancy related infrastructure construction.

NCIG's Financial Matrix and Liquidity Position: NCIG's total assets showed a significant growth trend in the past years and reached RMB37.4 billion at end-September 2022, mainly due to the increase of construction in progress, intangible assets and inventories. NCIG's financial leverage (total liabilities to assets) remained stable at around 51%-58% from end-2019 to end-September 2022 and its adjusted debt increased to c. RMB17.1 billion at end-September 2022. The liquidity of NCIG was sufficient. NCIG had a cash balance and unused credit facilities of c. RMB2.8 billion and RMB3.8 billion at end-September 2022, compared with its debt due within one year of c. RMB2.2 billion. Besides, NCIG has access to various financing channels, including bank loans, onshore and offshore bond issuance and non-traditional financing, to support its debt repayment and business operations.

Economy and Fiscal Strength of Nanxun: As an administrative region under the jurisdiction of Huzhou City, Nanxun is located with advantageous position for transportation. Nanxun's economy maintained steady growth, with GDP reaching RMB52.9 billion in 2021, up 8.5% year-on-year. The GDP was mainly fueled by the second and tertiary industries, which accounted for 58.5% and 36.1% of total GDP in 2021.

The aggregate fiscal revenue of the Nanxun government was mainly derived from the budgetary revenue and government fund. The Nanxun government's budgetary revenue grew steadily, and its tax revenue accounted for c. 90% of its budgetary revenue. On the other hand, the government fund income increased rapidly due to the increase of revenue from the transfer of state-owned land use rights. The fiscal self-sufficiency rate of the Nanxun government was insufficient, thus it continued to receive subsidies from higher governments. At end-2021, the total outstanding amount of government debt increased to c. RMB9.2 billion from c. RMB6.4 billion at end-2019, mainly due to the increase in special purpose bonds. The debt ratio (i.e. total government debt divided by aggregate revenue) of the Nanxun government was c. 64% at end-2021, slightly down from c.66% at end-2019.

Rating Sensitivities

We would consider downgrading NCIG's rating if (1) there is perceived weakening in support from the Nanxun government, particularly due to its reduced strategic importance with diminished government functions, or (2) there is a significant reduction of the Nanxun government's ownership of NCIG, or (3) there is a downgrade in our internal credit assessment on the Nanxun government.

We would consider upgrading NCIG's rating if (1) there is strengthened support from the Nanxun government, or (2) there is an upgrade in our internal credit assessment on the Nanxun government.

About Lianhe Global

Lianhe Global is an international credit rating company that provides credit ratings to corporations, banks, non-bank financial institutions, local government financing vehicles, and other asset classes around the globe. Lianhe Global also provides credit risk research and other services related to credit ratings.

Rating Methodology

The principal methodology used in this NCIG's rating is Lianhe Global's China Local Government Financing Vehicle Criteria published on 31 December 2021, which can be found at the website www.lhratingsglobal.com.

Note: The above Issuer/Issuance Credit Ratings are solicited at the request of the rated entity or a related third party.

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